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Regional Projects in ADF: Impacts and Funding Issues

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ABBREVIATIONS

ADB	–	Asian Development Bank
AfDB	–	African Development Bank
ADF	–	Asian Development Fund
CAREC	-	Central Asia Regional Economic Cooperation
EWEC	–	East-West Economic Corridor
FDI	–	foreign direct investment
GDP	–	gross domestic product
GMS	–	Greater Mekong Subregion
IDA	–	International Development Association
km	–	kilometer
Lao PDR	–	Lao People's Democratic Republic
QPG	–	quasi-public good
RCI	–	Regional Cooperation and Integration
RPG	–	regional public good
SDR	–	special drawing rights
VOC	–	vehicle operation cost

NOTES

- (i) In this report, "\$" refers to US dollars.
- (ii) The SDR/\$ exchange rate used in this report is 1.575815.

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EXECUTIVE SUMMARY

This paper considers issues associated with the impacts of regional projects, and the nature and volume of its funding by the Asian Development Fund (ADF). It serves to provide supporting justification for some of the recommendations in the paper, "Allocation of ADF X".

The paper begins by surveying the available evidence on the social and economic impacts of regional projects. The difficulties of isolating and quantifying the impact of regional projects on economic and social conditions are noted at the outset. Identification and measurement is particularly complex for regional projects, because the impacts are dispersed unevenly across boundaries, and sometimes to third (non-contributing) parties as well. These constraints notwithstanding, the evidence from studies employing macro and micro approaches is examined. The macro studies employing econometric and computable general equilibrium modeling approaches generally show a strong, positive association between cross-border infrastructure and measures of trade, foreign direct investment, and growth. The latter approach quantifies the impact and points to a significant acceleration in gross domestic product growth and reduction in poverty. Micro-level studies, employing primary data collected from different types of surveys to supplement secondary data, confirm the findings of the macro studies at the project level. Several analytical studies, together with post-evaluation assessment of Asian Development Bank (ADB) projects, have measured increases in employment, significant improvements in per capita income, and discernable reductions in income poverty associated with cross-border infrastructure projects. In some cases, changes in the composition of output favoring higher value-added activities and increases in tourism have also been identified.

Despite these potential gains, regional projects in developing countries remain underfunded for politico-economic as well as purely economic reasons. Mandated to promote regional cooperation under its Charter, ADB implements this function through its RCI strategy and long-term strategic framework. Earmarking is required to overcome the economic constraints associated with coordination and market failures, which limit investment in regional projects. For most regional infrastructure projects, the justification for an earmarked allocation emanates from the greater likelihood of coordination failure. The relationship between performance and outcome breaks down at the country level for regional projects. The uncertainty and risk of investing in a regional project are higher because the outcome—and hence the benefit—depends upon the performance of other partners. Unless the increased risk and uncertainty are compensated for, investments in regional projects could slow significantly. An earmarked allocation compensates for this.

This problem of coordination failure affects all regional projects. However, those that mainly produce RPGs have in addition a likelihood of market failure, where private and social costs or benefits can differ substantially, resulting in externalities and free-rider problems. For regional projects dealing with communicable disease control or climate change, for instance, significant asymmetric costs and benefits can also affect a sense of ownership. The justification for earmarking is strengthened in these situations. In short, it is unclear whether ADB would be able to carry out its mandate and achieve its strategic RCI objectives without the earmarked allocation. If earmarking is provided for regional projects to offset the disincentives arising from coordination problems and externalities, then ownership should be demonstrated by participating countries bearing a part of the project cost.

A related but separate issue involves the need to increase the share of earmarking from the current 5% of the ADF. An increase in earmarking is required to meet current and future excess demand for such funding. Under current earmarking, the regional ADF requirements during 2005–2008 have exceeded supply by about 350%. This is likely to increase for two

reasons, one geographic and the other sectoral or issues-related. First, Central and South Asia in particular are likely to make fresh demands on this pool, which has in the past been used in large measure to finance regional projects in Southeast Asia. Second, new issues such as energy security and climate change are becoming increasingly important and will require regional intervention. Based on the proposed pipeline for 2009–2012, the total demand for ADF resources for regional projects in ADF X—from traditional recipients and sectors as well as new subregions and issues—is expected to be SDR1.54 billion or about \$2.4 billion. The earmarked allocation for regional projects should be increased keeping in view this projected demand.

The most compelling reason for the proposed increase to meet current and future excess demand is that regional projects have demonstrable impacts on growth and poverty. Further, they are particularly well-suited to delivering RPGs that address many of the complex challenges facing developing Asia and the Pacific. Many of the externalities and spillovers, and asymmetries in private and social costs and benefits that limit their uptake, are the types of projects that need to be supported because these outcomes can have a disproportionately large impact on social and economic conditions. An increase in the earmarking would be required to facilitate this, and capture the benefits that regional projects can offer.

I. INTRODUCTION

1. This paper considers issues associated with the impacts of regional projects, and the nature and volume of its funding by the Asian Development Fund (ADF). The paper is in five parts. It serves to provide supporting justification for the related recommendations in the paper “Allocation of ADF X”. For this reason, the focus is on economic issues and justification, rather than operational details. In section II, we examine the evidence relating to the outcomes and impacts of regional projects, focusing on whether a discernable impact on growth and poverty can be identified. Section III examines the case for earmarking in ADF for regional projects. Section IV examines the case for increasing the share of earmarking from its current 5% of the total. A final section provides a summary of main points.

II. WHAT ARE THE DEMONSTRABLE OUTCOMES AND IMPACTS OF REGIONAL COOPERATION AND INTEGRATION PROJECTS?

A. Introduction

2. Isolating and quantifying the impact of regional projects on economic and social conditions is fraught with difficulties that must be recognized at the outset. This process is difficult even for national projects, where the impacts are localized. However, measuring and identifying impacts is particularly complex when more than one country is involved, because the impacts are dispersed unevenly across boundaries, and sometimes to third (non-contributing) parties. Furthermore, the impacts might not be fully realized for many years. As such, measurements at any point could represent only a portion of the final cumulative effect, either positive or negative. These constraints should be considered when interpreting the evidence on the social and economic impacts of regional projects.

3. This survey focuses on the Greater Mekong Subregion (GMS) which accounts for the bulk of ADB’s completed regional projects to date. However, we also include some evidence from the Central Asia Regional Economic Cooperation (CAREC) region. For both regions, the bulk of ADF-funded regional projects have concentrated on developing cross-border infrastructure. The mechanisms through which poverty could be reduced by investments in subregional infrastructure can be viewed at the macro and micro (household) levels. At the macro level, cross-border infrastructure reduces trade costs, leading to more trade and investment and, subsequently, to faster economic growth, greater employment, and higher incomes. This could reduce poverty, especially if policies are in place to promote the participation of the poor in this process.

4. At the household level, cross-border infrastructure could benefit the poor by (i) raising household incomes through better access to markets and higher productivity of resources owned by the household; and (ii) increasing the access of the poor to consumer goods, as these goods become more affordable as transport costs fall.

5. Macro-level studies can be thought of as being “top-down”, while micro-level studies are “bottom-up”. They both measure impacts but in different ways. This paper surveys the evidence from both types of studies.

B. Macro-Level Studies

6. Two types of approaches have been employed in analyzing the macro impact in the GMS—one employing time-series econometrics, the other computable general equilibrium modeling. These types of studies use secondary data. An additional qualification is needed for macro-level studies. Isolating the independent contribution of a project, whether national or regional, might be difficult. It is impossible to conduct a fully controlled experiment to isolate effects, and data and information sets are generally incomplete, especially in developing countries.

7. A recent study¹ employ a gravity model using data on trade flows across GMS countries and indicators of road infrastructure and trade policy to determine the impact of cross-border road infrastructure on trade and foreign direct investment (FDI) flows. The study found that cross-border infrastructure increases trade. This effect grows when domestic road infrastructure is factored into the analysis, implying complementarity between the two.

8. Drawing upon this observed complementarity, a study on Lao People's Democratic Republic (Lao PDR)² constructed a multisector, multi-household general equilibrium model to quantify the effect that rural road improvement has on poverty incidence. The study is relevant in this context because the Asian Development Bank (ADB) has played a major role, through national and subregional programs, in upgrading road infrastructure in the country. Further, Lao PDR's location and landlocked nature reinforces this complementarity, as most national roads are vital elements in the road network that links the region. The authors found that all forms of road improvement reduce poverty, with the magnitude of the impact being maximized when no-vehicle access areas are provided with dry season access roads.

9. In a forward looking study of the CAREC region³, a multi-sector computable general equilibrium model is employed to simulate the economic impact of regional cooperation in transport, transit, and trade policy, focusing on the Kyrgyz Republic. The results of the simulation indicated that the cumulative increase in the Kyrgyz's Republic's real GDP in 2006-2015 would be \$2.1 billion or 112.3% higher than the baseline scenario without regional cooperation. The average cumulative increase in incomes of poor households is 94.3% over 2006-2015. The analysis also demonstrated the strong synergy between regional cooperation in transport, transit, and trade policy. When regional cooperation in these three areas is combined, then the benefits are amplified - real GDP is 150.2% higher than the baseline scenario.

C. Micro-Level Studies

10. Micro-level studies employ primary and secondary data. The primary data is usually collected using qualitative and quantitative surveys (e.g., baseline and post-implementation surveys) and related methodologies, such as rapid pilot assessments, case studies, and participatory assessments.

¹ Fujimura, Manabu and Christopher Edmonds (2007). "Impact of cross-border road infrastructure on trade and investment in the Greater Mekong Subregion", in D. Brooks and J. Menon (eds.), *Infrastructure and Trade in Asia*, London: Edward Elgar. (Downloadable from: <http://www.adbi.org/files/cpp.road.infrastructure.paper.pdf>)

² Menon, Jayant and Peter G. Warr (2007). "Does Road Improvement Reduce Poverty? A General Equilibrium Analysis for Lao PDR", in D. Brooks and J. Menon (eds.), *Infrastructure and Trade in Asia*, London: Edward Elgar. (Downloadable from: <http://www.adbi.org/files/cpp.road.improvement.paper.pdf>)

³ Asian Development Bank (2006). *Central Asia. Increasing Gains from Trade through Regional Cooperation in Trade Policy, Transport, and Customs Transit*. Chapter 7. Manila.

11. An ADB study⁴ employed provincial records and surveys to determine the impact of the East-West Economic Corridor (EWEC) on Savannakhet province in Lao PDR. Completion of the EWEC has been associated with a 35% drop in the incidence of income poverty—from 37,282 families in 1998 to 24,400 families in 2004. Per capita income increased from \$371 in 2001 to \$425 in 2005. The reduction in income poverty and increase in per capita income were significantly higher than the national averages. The value of FDI and joint ventures also increased from \$17.5 million in 1995–2000 to almost \$200 million in 2001–2005.

12. Another ADB study⁵ employed a combination of methodologies using primary and secondary sources of information to assess the poverty impact of the GMS program. For 1992–2002, the annual increase in per capita income is estimated at 2.7%. Cross-border trade in 2004 was 11 times higher than in 1992, with countries such as Lao PDR and Cambodia conducting more than 40% of trade among themselves.

13. A number of post-evaluation assessments of ADB projects, employing baseline and post-implementation surveys supplemented with secondary analysis of official statistics, indicate significant impacts from regional projects.

14. The Champassak Road Improvement Project—from Chong Mek in Lao PDR (on the border with Thailand) to Pakse (40 km) and on to Veun Kham (on the border with Cambodia, 160 km)—was completed in May 2001. Travel times were reduced by more than half, and travel costs subsequently fell for those using private transport. The cost of public transport decreased by more than 20% in real terms. About 46% of households in the project area increased their agricultural output for sale at local markets, increasing their incomes.

15. The Phnom Penh–Ho Chi Minh City Highway Improvement Project between Cambodia and Viet Nam was completed in 2004. Because of savings in time and lower vehicle operating costs (VOCs), the total value of trade between Cambodia and southern Viet Nam along this highway increased by about 40% per year between 2003 and 2006. The number of persons crossing the border, including tourists, rose at an average annual rate of about 53%, and vehicles crossing the border increased at an average annual rate of 38% in that period. One of the spillover effects of this project was the development of the Trang Bang Industrial Park on the Viet Nam side, which is generating many jobs for the local population.

16. The Yunnan Expressway from Chuxiong to Dali, covering 179 kilometers (km), was completed in May 2000. Between 1994 and 2000, GDP in the six municipalities and counties in the project area increased by 1.9 times on average, significantly higher than the national average of 1.4 times. The number of tourists in the project area also rose fivefold, which would have had significant spillover effects.

17. In the CAREC region, the Almaty-Bishkek Regional Road Rehabilitation Project, completed in 2007, improved the main arterial road between these two key Central Asian cities. Traffic volumes have increased by 25%, travel times are reduced by at least 50% from 5-6 to 2-3 hours, and exports from the Kyrgyz Republic to Kazakhstan have increased by 160% between 1998 and 2007. Lake Issyk kul, the key Central Asian tourist destination in the Kyrgyz Republic has benefited through significant investment in accommodation and services, demonstrated by

⁴ Luanglatbandith, Rattanatay (2007). "Development Impact of the East West Economic Corridor on Savannakhet Province of the Lao People's Democratic Republic." Manila, ADB.

⁵ Singh, Janmejay and Manoshi Mitra (2006). Reviewing the Poverty Impact of Regional Economic Integration in the Greater Mekong Sub-Region. Manila: ADB.

the one million tourists in 2007 a 50% increase over 2005. A cross-border agreement was made effective and included improvements to the customs facilities at the Akzhol-Chu border.

18. Thus, the available assessments of regional projects demonstrate that investments in such projects are highly rewarding. Regional cooperation, particularly in cross-border infrastructure, has benefited countries at the macro and micro levels. At the macro level, cross-border infrastructure projects have enabled faster economic growth and contributed to poverty reduction. At the household level, these projects have helped raise household incomes through improved access to markets. Based on this evidence, future investments in cross-border infrastructure from the ADF X replenishment can be expected to significantly accelerate growth and reduce poverty in the region.

III. WHY IS AN EARMARKED ALLOCATION FOR REGIONAL PROJECTS IN ADF JUSTIFIED?

A. Introduction

19. Regional projects in developing countries remain underfunded despite their potentially high returns, especially through positive cross-border externalities⁶ or spillover effects, compared to traditional country-focused investments. RPGs receive only about 2.0%–3.5% of total official development assistance annually.⁷ A mixture of practical and political economy reasons, on the one hand, and pure economic reasons, on the other, seem to account for this. From a political economy point of view, bilateral aid agencies tend to prefer country-based transfers because they have the potential to provide greater geostrategic and political benefits.

20. Even for multilateral development agencies, the recent emphasis on country “ownership” of their own priorities has favored national programs over regional ones. From a pure economic perspective, under-investment resulting from coordination failures that apply to all types of regional projects need to be corrected.⁸ Regional projects that produce largely regional (as opposed to national) public goods can also have significant asymmetries in costs and benefits across countries that result in further underinvestment in such projects. The disincentive for national governments to invest in regional projects arising from such “market failure” needs to be corrected through earmarked allocations for such regional projects outside national budgets.

B. The Strategic Imperative

21. The earmarked allocation of ADF resources for regional projects was introduced in 2002 under ADF VIII largely to overcome these constraints. Mandated to promote regional cooperation under its Charter, ADB has implemented this function through its regional cooperation and integration (RCI) strategy and long-term strategic framework. Earmarking is required to overcome the economic constraints that limit investment in regional projects, and thereby enable ADB to play this strategic role. Without earmarking, it is unclear whether ADB would be able to carry out its mandate and achieve its strategic RCI objectives.

⁶ The term ‘externalities’ refers to positive or negative effects that spillover to parties other than the deciding entity, say a country authority, and are therefore not factored into the decision making.

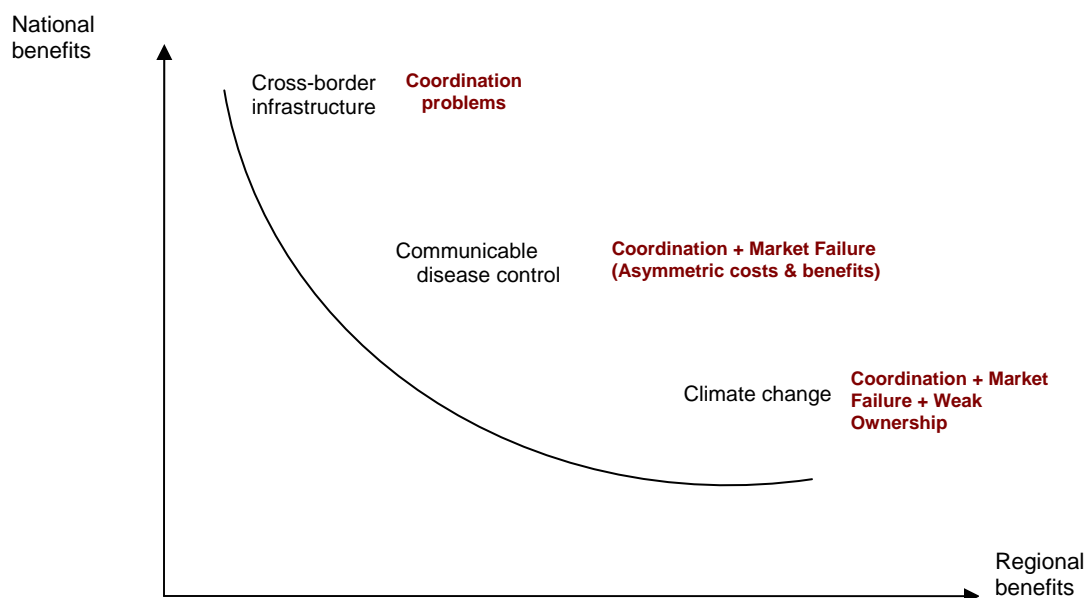
⁷ Birdsall, Nancy (2004), “Underfunded Regionalism in the Developing World”, *Working Paper No. 24*, Centre for Global Development.

⁸ For an explanation of such coordination failure in the context of regional projects see paragraphs 23-26.

C. Overcoming Economic Constraints: Coordination and Market Failures

22. Cross-border projects generate benefits that accrue within national boundaries as well as benefits that accrue to a whole region or subregion. As illustrated in Figure 1, different types of regional projects result in different shares of national versus regional benefits. Furthermore, the split between national and regional benefits might be time-bound. Although cross border transport infrastructure may deliver mostly national benefits to participating countries in its early years of operation, regional benefits could increase substantially over time as it promotes cross border trade and investment.

Figure 1: Differing Shares of National Versus Regional Spillovers in Regional Projects



Source: Author's interpretation

(i) Overcoming Coordination Failure: Cross border transport infrastructure

23. Historically, a significant portion of ADF funded regional projects have focused on cross border transport infrastructure. For such projects, it is the contrast between national inputs and regional outputs that justifies earmarking, because the overall performance of a project depends on a coordinated outcome. The contribution made by one country to the success of a regional project depends upon other countries contributing equally. This cannot be ensured or enforced for several reasons: (i) participating countries might have different priorities and attach different weights to a regional project, (ii) commitment to the project's success might change along with domestic political and economic circumstances, or (iii) severe domestic resource constraints or institutional weaknesses could prevent countries from participating fully.

24. In such circumstances,—the relationship between performance and outcome, or inputs and outputs, breaks down at the country level for regional projects.⁹ The uncertainty and risk of investing in a regional project are higher because the outcome—and hence the benefit—depends upon the performance of other partners.

25. Furthermore, when resources are scarce, their opportunity cost rises sharply. This will affect the trade-off in allocating such resources between national and regional projects, if the cost-benefit calculations for the two types of projects differ. As regional projects are usually more complex than national projects, they are more costly to design, and face greater uncertainty in terms of timing and expected benefits. Thus, from a country perspective the perceived benefit (per dollar of ADF resources) of a regional project might be significantly lower than for a similar national project. Under such conditions, resource-constrained countries, facing relatively higher opportunity costs of ADF funds and uncertain benefits, might be unwilling to undertake and finance regional projects unilaterally unless additional funds are provided to equalize opportunity costs, or ways are found to ensure that the benefits are shared equitably.

26. Unless the increased risk and uncertainty are compensated for, investments in regional projects could slow significantly. An earmarked allocation compensates for this. In short, the potential for coordination failure in regional projects implies that earmarking is required to compensate for increased risk and uncertainty associated with them.

(ii) Overcoming Coordination and Market Failure: RPGs

27. The profile of ADF funding for regional projects is likely to change from mainly supporting cross-border transport infrastructure to also financing projects producing RPGs such as addressing climate change. This change is underpinned by the increasing importance of energy security and climate change issues, as well as the myriad other social and environmental issues resulting from faster growth. An increasing number of regional projects are also targeted interventions related to the Millennium Development Goals, such as those aiming to control the spread of communicable diseases, projects that promote sustainable environmental management practices, as well as those that generate and share knowledge resources.

28. RPG projects face the same problem of coordination described above for cross-border infrastructure projects. However, for RPG projects a further justification for earmarking comes from the additional likelihood of market failure, when private and social costs or benefits differ, resulting in externalities and free-rider problems. Significant accrual of benefits at the regional level, as distinct from the national level, can compromise the sense of national ownership of one or more countries participating in a regional project (see Fig. 1). Stressing the importance of overcoming market failure in providing regional public goods or addressing regional public bads,

⁹ To illustrate, consider a cross border infrastructure project involving a road that runs from country A through country B to country C. Assume that the main function of the road is to facilitate trade between country A and C, and that country B serves mainly as a transit route. In such a situation, not only will country B question the benefit that it would derive from the cross border project, but both country A and C will be aware of country B's concerns, and thereby its interest and commitment to the project. Coordination failure occurs when either country B fails to participate in the project due to perceived unequal benefits, and/or country A or C hesitates because of the awareness of this likelihood, recognizing that success is a joint product. For a lucid discussion of assignment problems associated with coordination failure, see Estevadeordal, A., B. Frantz and T. R. Nguyen (2005). *Regional Public Goods: From Theory to Practice*. Washington, DC: Inter-American Development Bank and ADB.

a prominent development economist has recently described climate change as being “a result of the greatest market failure the world has seen”.¹⁰

29. As is well known, the market mechanism is unable to allocate resources efficiently in such circumstances because of externalities, and output will be suboptimal because of free-rider problems. The underlying mechanism that the performance-based allocation system employs in allocating scarce resources is not dissimilar to that of the market system, as much as it functions as a rationing device. In the presence of externalities, this system will not work as an efficient allocation system, because some of the benefits or costs accrue to third parties. For the same reason, the outputs will be suboptimal because the opportunity and incentive to free-ride will limit uptake.

30. Significant regional externalities would increase the asymmetries in costs and benefits across countries, making the pursuit of coordination and stronger country ownership more difficult. While earmarking would not remove such asymmetries, it would enable better matching of costs and benefits by reducing the opportunity costs of funds, and would increase country incentives. At the margin, earmarking might facilitate regional investments that otherwise might not occur due to coordination failure and weaker country incentives caused by such asymmetries. At the same time, if increased earmarking is provided to compensate for the disincentives of coordination failure and externalities in regional projects, then ownership of regional projects should be demonstrated by participating countries by meeting a part of the project cost.

IV. WHY SHOULD THE EARMARKED ALLOCATION BE INCREASED?

A. Introduction

31. A related but separate issue involves the basis for increasing the share of earmarking from the current 5% of the ADF. The overall demand for regional funding currently is much higher than supply. Thus, many regional projects might not receive investments under the current earmarking. This shortfall is likely to increase in the near future, as new subregions emerge and the significance of RPG issues increases. The most important reason for the proposed increase is that regional projects have demonstrable impacts on growth and poverty, and are particularly well-suited to delivering RPGs that address many of the challenges facing developing Asia. (Appendix looks at what other international financial institutions have been doing in addressing similar challenges.)

B. Current Excess Demand

32. Demand for resources available in the earmarked pool has always exceeded supply. Aggregate demand is still overwhelming and is expected to increase. During 2005–2008, the regional ADF requirements of all ADB-supported subregional cooperation programs totaled \$568 million, about 350% higher than the available ADF regional pool of \$165 million. This is a significant shortfall under the current 5% earmarking.

¹⁰ Stern, Nicholas (2007). “Climate Change, Ethics and the Economics of the Global Deal”, Plenary Address to the 2007 Royal Economic Society Conference, Manchester, England.

C. Future Excess Demand: New Subregions, New Issues

33. The demand for regional ADF is likely to increase for two reasons, one geographic and the other sectoral or issues-related.

34. Regional earmarking has supported mainly projects in the GMS and, to a lesser extent, those under the CAREC program. As other ADB-supported subregional initiatives mature over the next few years, fresh demands on this pool, particularly from Central Asia and South Asia, will emerge. This will come on top of growing demands from the traditional recipients, the GMS and CAREC programs, whose pipeline of ADF regional projects is estimated at SDR700 million or about \$1.1 billion for 2008–2010.

35. Some new issues, which are RPG in nature, are becoming increasingly important and will require regional intervention. Emerging concerns on energy security and climate change are two such issues that are likely to dominate. In addition, the social and environmental costs of faster growth, which are often borne disproportionately by the poor and vulnerable, will continue to need regional approaches.

36. Based on the proposed pipeline for 2009–2012, the total demand for ADF resources for regional projects in ADF X—from traditional recipients and sectors as well as new subregions and issues—is expected to be SDR1.54 billion or about \$2.4 billion. The earmark increase could be justified purely by the current excess demand. However, future excess demand is likely to be even higher due to geographic and sectoral factors, which will increase the need for this proposed increase.

37. The most compelling reason for the proposed increase to meet current and future excess demand is that regional projects have demonstrable impacts on growth and poverty (see Section II). Further, they are particularly well-suited to delivering RPGs that address many of the complex challenges and constraints facing developing Asia and the Pacific. Many of the externalities and spillovers, and asymmetries in private and social costs and benefits that limit their uptake, are the types of projects that need to be supported because these outcomes can have a disproportionately large impact on social and economic conditions. An increase in earmarking would be required to facilitate uptake and capture the benefits that regional projects can offer.

V. CONCLUSION

38. This paper has examined the evidence on the impacts of regional projects, confirming a clearly discernable impact on growth and poverty. Despite these potential gains from regional projects, such projects in developing countries remain underfunded. The paper has explained that earmarking is required to overcome the economic constraints associated with coordination and market failures, which constrain national investment in regional projects. Since there are good grounds to justify earmarking, increasing it from the current 5% of the ADF in line with expected demand has been proposed. Finally, if the disincentives arising from coordination problems and externalities are offset by earmarking allocations for regional projects, then participating countries should demonstrate ownership of such projects by meeting a part of the project cost.

EXPERIENCE OF OTHER INTERNATIONAL FINANCIAL INSTITUTIONS

1. Other international financial institutions, such as the World Bank and African Development Bank (AfDB), have faced rising demands that have resulted in increased earmarking for regional projects. As part of the African Development Fund 11 replenishment agreement negotiated in 2007, AfDB's earmarking for regional projects increased to 17.5%. Since this increase is still significantly below current demand, AfDB proposes to increase it further to 20% in the next replenishment.

2. The World Bank's International Development Association (IDA) commitments for regional projects also have increased significantly, although their share in the total remains relatively small. The size of the share reflects the complementary roles played by different institutions, with the World Bank noting that regional development banks should provide more financing for regional projects. Nevertheless, funding of regional projects increased sharply from \$155 million during 1995–2000 to \$993 million during 2001–2006, and is proposed to rise further in future replenishments. In the most recent IDA replenishment (IDA 15), regional projects have been allocated SDR400 million per year for the 3-year period between July 2008 and June 2011.